

## Part B Consultation Questions

Please indicate your preference by checking the appropriate boxes. Please reply to the questions below on the proposed change discussed in the Consultation Paper downloadable from the HKEX website at:

<http://www.hkex.com.hk/-/media/HKEX-Market/News/Market-Consultations/2016-Present/May-2019-Review-of-ESG-Guide/Consultation-Paper/cp201905.pdf>.

Where there is insufficient space provided for your comments, please attach additional pages.

### Timeframe for Publication of ESG Reports

1. Do you agree with our proposal to amend Main Board Listing Rule 13.91 and GEM Listing Rule 17.103 to shorten the time required to publish an environmental, social and governance (“**ESG**”) report from three months after the publication of the annual report to within four months for Main Board issuers or three months for GEM issuers from the financial year-end date?

Yes

No

Please give reasons for your views.

ESG as non-financial disclosure is a very useful information and references for investors, especially socially responsible investors, upon making investment decisions. Publishing ESG reports at the same time with annual reports allows investors to have more updated information, and reduce the extra time spend on reviewing financial and non-financial information. As mentioned in the Consultation Paper, the review published in May 2018 showed that 60% of the sample issuers have already published their ESG report at the same time as their annual report. This shows the market is also gradually adapting to such practice. It is understandable that some companies prefer to have more buffer time in preparing ESG disclosure information. Thus, it is recommended to have a buffer for companies to adapt and prepare for such reporting practice before the full implementation.

### Printed Form of ESG Reports

2. Do you agree with our proposal to amend the Listing Rules and the Guide to clarify that issuers are not required to provide printed form of the ESG report to shareholders unless responding to specific requests, but are required to notify shareholders that the ESG report has been published on the Exchange’s and the issuer’s websites?

Yes

No

Please give reasons for your views.

***With technological advancement, it is very easy for investors to get corporate disclosures or related information online. Also, it is expected that companies will have more disclosures (in terms of qualitative and quantitative data) to be included in the upcoming ESG reports. To promote environmentally friendly practices, it is reasonable to notify shareholders the publication of ESG report and not to require issuers to provided printed ESG reports, or only providing the reports upon specific request.***

## Introducing Mandatory Disclosure Requirements

### General

3. Do you agree with our proposal to amend the Guide to introduce Mandatory Disclosure Requirements (“MDR”)?

Yes

No

Please give reasons for your views.

Amending the ESG Guide as suggested in the Consultation Paper provides higher information transparency of issuers to shareholders. These amendments enable shareholders, especially socially responsible investors, to have more ESG information to reference and consider upon investment decisions. It is a very good idea of incorporating new elements like climate change disclosures in the amendment. However, some issuers may need time in preparing disclosures on such topics, so it would be better to give a grace period for issuers to gather information and prepare for such information disclosures.

### Governance Structure

4. If your response to Question 3 is positive, do you agree with our proposal to introduce an MDR requiring a statement from the board containing the following elements:

(a) a disclosure of the board’s oversight of ESG issues?

(b) the process used to identify, evaluate and manage material ESG-related issues (including risks to the issuer’s businesses); and

(c) how the board reviews progress made against ESG-related goals and targets?

Yes

No

Please give reasons for your views.

Engagements of decision makers and responsible parties in a corporation is essential to drive corporate sustainability, which implies the board have the responsibility in governing the ESG issues. Their responsibilities are including but not limited to overseeing the ESG issues, but to have continuous evaluating and managing them. These disclosures allow higher transparency in how the issuer manages ESG issues from a top-down approach.

5. Do you agree with our proposal to set out in a note that the board statement should include information on the issuer’s current ESG management approach, strategy, priorities and goals/targets and an explanation of how they relate to the issuer’s businesses?

Yes

No

Please give reasons for your views.

***Incorporating a “board statement” is able to present the management approaches of the issuer in terms of the board’s point of view. This shows shareholders the engagement of the board in ESG issues and enables them to better understand the management actions or approaches carried out in a top-down manner. In addition, “board statement” is included in international reporting standards like GRI. To better cope with the international standards and market, it would be a great suggestion to incorporate a board statement in the ESG report.***

#### Reporting Principles

6. Do you agree with our proposal to amend the Guide to introduce an MDR requiring disclosure of an explanation on how the issuer has applied the Reporting Principles in the preparation of the ESG report?

Yes

No

Please give reasons for your views.

***Reporting Principles serves as the backbone of the ESG report, it sets the general direction in disclosures, such as upon materiality, comparability, etc. The inclusion of explanation on the application of Reporting Principles facilitates the readers’ (shareholders’) understanding upon how the issuer is utilizing the Reporting Principles in their ESG report.***

7. Do you agree with our proposal to amend the Reporting Principle on “materiality” to make it clear that materiality of ESG issues is to be determined by the board and that the issuer must disclose a description of significant stakeholders identified, the process and results of the issuer’s stakeholder engagement (if any), and the criteria for the selection of material ESG factors?

Yes

No

Please give reasons for your views.

***As there are many different industries in the market, each industry and company should have variation in their preferences of development. The amendment allows issuers to really think of what topics/issues are material to their operation that have to be included in the report. It is also easier for shareholders and other readers to understand the approaches issuers adopted in terms of their prioritization of material topics. In addition, upon the international standards such as GRI, "materiality" is mentioned in its reporting principles and it is a requirement for companies to present a materiality matrix if their reports are prepared in accordance with the GRI standards.***

8. Do you agree with our proposal to amend the Reporting Principle on “quantitative” to:

- (a) require disclosure of information on the standards, methodologies, assumptions and/or calculation tools used, and source of the conversion factors used for the reporting of emissions/energy consumption (where applicable); and
- (b) clarify that while key performance indicators (“KPIs”) for historical data must be measurable, targets may be expressed by way of directional statements or quantitative descriptions?

Yes

No

Please give reasons for your views.

***Currently they may be slight variations upon calculation of data. The amendment allows readers to better understand the rationale, standards, methodologies and assumptions upon the presented data. In addition, the provision of historical data enables data comparison, and tracking of the ESG performances of the issuer. This makes benchmarking and monitoring of the issuers ESG performances and its target easier.***

Reporting Boundary

9. Do you agree with our proposal to amend the Guide to include an MDR requiring an explanation of the ESG report’s reporting boundary, disclosing the process used to identify the specific entities or operations that are included in the ESG report?

Yes

No

Please give reasons for your views.

***Reporting boundary is the basis in the preparation of ESG report. The amendment allows readers to have a better understanding of the specific entities and operations to be included in the ESG report, enabling them to have a clearer idea and facilitating their understandings of the disclosures in the ESG report. If there are any changes in the reporting boundary, the amendment enables readers to obtain such information, and can reduce the chances for misunderstanding of the disclosures in the ESG report.***

## Introducing Aspect on Climate Change and Revising the Environmental KPIs

### Climate Change

10. Do you agree with our proposal to introduce a new Aspect A4 requiring:
- (a) disclosure of policies on measures to identify and mitigate the significant climate-related issues which have impacted, and those which may impact the issuer; and
  - (b) a KPI requiring a description of the significant climate-related issues which have impacted, and those which may impact the issuer, and the actions taken to manage them?

Yes

No

Please give reasons for your views.

***Climate change has been widely discussed in recent years. There are also various publications on the topic internationally. There are both short and long term impacts brought by climate change and all industries will eventually be affected. It poses risk and opportunities to companies and listed issuers. The introduction of such topic as a KPI disclosure in the ESG report is able to foster issuers to consider and manage climate change impacts in their operations. This also shows that the HKEX is aware of the international issues and striving to push forward such issues in corporate sustainability.***

### Targets

11. Do you agree with our proposal to amend the Environmental KPIs to require disclosure of a description of targets set regarding emissions, energy use and water efficiency, waste reduction, etc. and steps taken to achieve them?

Yes

No

Please give reasons for your views.

***The purpose of ESG report is not only for compliance, but also as a communication channel for issuers to present their efforts and achievements in achieving corporate sustainability. The amendment of setting targets for Environmental KPIs pushes issuers a step forward in achieving corporate sustainability. The inclusion of targets enables readers and issuers to benchmark the company's actual ESG performances and having targets allows easier monitoring of issuers ESG performances.***

## GHG Emissions

12. Do you agree with our proposal to revise an Environmental KPI to require disclosure of Scope 1 and Scope 2 greenhouse gas (“GHG”) emissions?

Yes

No

Please give reasons for your views.

***The revision enables issuers and readers to have a clearer understanding of the issuers’ ESG performance, in terms of GHG emissions. Most of the GHG emissions in Hong Kong are resulted from electricity consumption (Scope 2). The requirement of disclosure in Scope 1 and Scope 2 GHG emissions provides a clearer picture for both readers and issuers for the major sources of GHG emissions. With a clearer understanding of the contribution of different sources of GHG emission, the issuers can better manage their emissions by implemented relevant emission reduction initiatives and policies.***

## **Upgrading the Disclosure Obligation of the Social KPIs**

13. Do you agree with our proposal to upgrade the disclosure obligation of all Social KPIs to “comply or explain”?

Yes

No

Please give reasons for your views.

***Upgrading social disclosures to “comply or explain” provides higher level of information transparency for shareholders and investors when reading the ESG report. The Social KPIs to some companies are even more material than Environmental KPIs. In the current ESG Guide, social disclosures are as recommended disclosures, some of the issuers have already reported on it. Also, for those who have not reported recently, they should also have certain knowledge on the requirements of recommended disclosure aspects. Thus, it would be appropriate to upgrade the social disclosures to “comply or explain”.***

## Revising the Social KPIs

### Employment Types

14. Do you agree with our proposal to revise a KPI to clarify “employment types” should include “full- and part-time” staff?

Yes

No

Please give reasons for your views.

Currently the definition of “employment type” is quite vague and mainly is defined by companies, which may vary in different companies. The clarification is also general and understandable, which issuers and shareholders should have limited or no difficulties in understanding. By having a cleared definition of employment type, it would be easier for issuers and shareholders to compare their performances with peers.

### Rate of Fatalities

15. Do you agree with our proposal to amend the KPI on fatalities to require disclosure of the number and rate of work-related fatalities occurred in each of the past three years including the reporting year?

Yes

No

Please give reasons for your views.

The amendment improves the information transparency of the issuers. This amendment is especially useful for industries that are prone to health and safety concerns during operation. In addition, the amendment of disclosing the number and rate of work-related fatalities occurred in the past three years provide a traceable data for reason comparison and monitoring of the performance of issuer.

## Supply Chain Management

16. Do you agree with our proposal to introduce the following new KPIs in respect of supply chain management?

- (a) Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.
- (b) Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.

Yes

No

Please give reasons for your views.

The introduction of the new KPIs is able to push forward sustainable supply chain among companies. It will be more transparent to have the new KPIs, allowing readers to understand more about the company's approaches in managing their supply chain. The disclosure can also serve as good benchmarks and references for peers in improving their sustainably practices.

## Anti- corruption

17. Do you agree with our proposal to introduce a new KPI requiring disclosure of anti-corruption training provided to directors and staff?

Yes

No

Please give reasons for your views.

For anti-corruption, one key element is to increase staff's and directors' awareness by training. This new KPI can bring issuers' attention to the importance of trainings and increase information transparency to shareholders.

## Encouraging Independent Assurance

18. Do you agree with the proposal to revise the Guide's wording on independence assurance to state that the issuer may seek independent assurance to strengthen the credibility of ESG information disclosed; and where independent assurance is obtained, the issuer should describe the level, scope and processes adopted for assurance clearly in the ESG report?

Yes

No

Please give reasons for your views.

- The accuracy of data is hardly judged by ESG report readers who are not from the issuers. Information that ESG report readers are generally publically available information. It would be feasible but troublesome to judge factual information such as compliance issues. However, it would be impossible for a general reader to judge the accuracy of data and calculations. Having independent assurance is able to fill the gap, strengthening the credibility and accuracy of the information disclosed in the ESG report.

End -